



**Nebraska Advantage Act  
Microenterprise  
Tax Credit**

**Fall 2013**

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Micro 2013  
2



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3



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Micro 2013  
4

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6

## Microenterprise Agenda

- NE Advantage Microenterprise Tax Credit
- Requirements
- Definitions
- Application Process
- Claiming the Credit

Micro 2013  
6

NE Advantage Act Microenterprise Tax Credit

## Refundable Income Tax Credit to Individual Taxpayers Who Meet Certain Criteria:

- \$2 million available beginning in each calendar year from 2006 to 2015; and
- Total lifetime credits for any taxpayer, and any related party, are limited to \$10,000.

[Back to agenda](#)

Micro 2013  
7

NE Advantage Act Microenterprise Tax Credit (continued)

## The Tax Credit

- Credit is 20% of the increase in qualified new investment, employment, or both.
- No fees or costs to apply.
- No minimum investment.
- Two tax years to earn the credit.

Micro 2013  
8

## Requirements

## The Requirements

- Applicant is actively engaged in the operation of a microbusiness (5 or fewer FTEs).
- Microbusiness is located in an eligible area.
- Microbusiness makes new investment or new employment.
- Most types of business activity qualify.
- The income of the applicant and microbusiness must be subject to income tax, including flow-through entities.
- Microbusiness must E-Verify new employees.

Nonprofit organizations do not qualify.

[Back to agenda](#)

Micro 2013  
9

## Definitions

## Definitions

- Microbusiness
- Qualified Business Activity
- Applicant
- Actively Engaged
- Eligible Area
- New Employment
- New Investment

[Back to agenda](#)

Micro 2013  
10

## Definitions (continued)

## Microbusiness

- Any for-profit business employing 5 or fewer full-time equivalent (FTE) employees at the time of application.
- Hours paid in the pay period that includes the application date determines the number of FTEs.

Example: "Snapshot" at time of application.

Micro 2013  
11

## Definitions (continued)

## Microbusiness

- Hours paid include regular, overtime, vacation, and holiday hours.
- Salaried employees are counted at 40 hours per week.
- Overtime hours are treated as straight hours.
- Hours paid do not include bonuses or severance pay.

Micro 2013  
12

Definitions (continued)

## Qualified Business Activity

All types of business activity qualify.

- Farm or livestock operations only qualify if the owner's net worth is < \$350,000 based on fair market value, including holdings of spouse or dependents; or
- The operation involves
  - Processing of ag products (not drying your own grain);
  - Aquaculture;
  - Ag tourism; or
  - Production of fruits, herbs, trees, vegetables, tree nuts, dried fruits, organic crops, or nursery crops.

Micro 2013  
13

Definitions (continued)

## Applicant

- Must be an individual person (cannot be the business).
- Includes owners, managers, partners, members, or shareholders.
- Does not have to be a Nebraska resident.

Micro 2013  
14

Definitions (continued)

## Actively Engaged

- Requires personal involvement on a continuous basis in the daily management and operation of the business.

Example:

- The owner/manager qualifies.
- A silent partner or board member who is not actively engaged does not qualify.

Micro 2013  
15

Definitions (continued)

## Eligible Area

For applications filed after  
January 1, 2013...

all Nebraska counties are eligible areas,  
except census tracts 9549 & 9550 in  
Cheyenne county  
and  
certain tracts in Washington County.

Micro 2013  
16

Definitions (continued)

## New Employment

- An increase in total employee compensation, for example:
  - Give current employees a raise;
  - Pay employees for more hours;
  - Hire more employees; or
  - Increase the employer's costs for employees' health insurance.
- Compensation also includes payment in trade.
- Employee compensation does not include compensation paid to any employee in excess of 150% of Nebraska average weekly wage.
- Employees must be residents of Nebraska.

Micro 2013  
17

Definitions (continued)

## New Investment

- Microbusiness increases purchases of buildings and depreciable personal property;
  - Motor vehicles do not qualify.
- Repairs and maintenance of depreciable assets; or
- Advertising, legal, and professional services.

Micro 2013  
18

Definitions (continued)

## New Investment

- Leases of depreciable real or personal property; and
- New lease is required.

$$\frac{\text{Increase in average annual rent}}{\text{Number of years (max of 10 years)}}$$

Micro 2013  
19

Definitions (continued)

## Lease Calculation Worksheet

A	B	C	D	E	F
Leased Property**	Annual Lease Costs (Old Lease)	Annual Lease Costs (New Lease)	Increase (Col. C - Col. B)	Term of New Lease	Net Lease Increase (Col. D X Col. E)
Total Net Lease Increase					

\*\*The value for a lease with increasing annual rental payments is the average annual payments.

Micro 2013  
20

## Definitions (continued)

## Example:

- My old lease was an annual lease with \$750/mo lease payments.
- My new lease has a 60-month (5 year) term at \$1,000/mo lease payments.
- Using the Lease Calculation Worksheet, my lease increase over the life of the new lease is \$15,000.

Micro 2013  
21

## Definitions (continued)

## Completed Lease Worksheet

A	B	C	D	E	F
Leased Property**	Annual Lease Costs (Old Lease)	Annual Lease Costs (New Lease)	Increase (Col. C - Col. B)	Term of New Lease	Net Lease Increase (Col. D X Col. E)
	\$9,000	\$12,000	\$3,000	5 years	\$15,000
Total Net Lease Increase					\$15,000
**The value for a lease with increasing annual rental payments is the average annual payments.					

Micro 2013  
22

## Application Process

- Applications for the 2014 calendar year will be accepted starting November 1, 2013.
- Estimate the increase in investment and/or employee compensation.
- Filing a completed application establishes the base year.
- Check the Authorization Table online for availability of funds.

[Back to agenda](#)Micro 2013  
23

## Application Process (continued)

## Part 1 Must Include:

- Copy of the most recent federal income tax return for the applicant and the microbusiness including –
  - Copies of the first 4 pages of the return, and any supporting schedules
    - Schedules C & F
    - Schedule K-1 for each shareholder or partner
    - Affiliations Schedule (Form 851)
    - Depreciation and Amortization Schedule (Form 4562)

Micro 2013  
24

## Application Process (continued)

## Part 1

**Nebraska Advantage Microenterprise Tax Credit Act Application**

The taxpayer filing this application must be actively engaged in the operation of a microbusiness in an eligible area. An eligible microbusiness is a business with five or fewer full-time equivalent employees at the time of application, other than a farmer or livestock operator who has a net worth that exceeds \$350,000. Refer to the qualified location information at [www.revenue.ne.gov](http://www.revenue.ne.gov) to determine if the microbusiness is located in an eligible area.

**PART 1**

Complete the following information about the taxpayer and the microbusiness in which it is involved.

APPLICANT - NAME AND MAILING ADDRESS		MICROBUSINESS - NAME AND LOCATION ADDRESS	
Legal Name		Microbusiness Name	
Mailing Address		Street Address (Do not use P.O. Box)	
City	State Zip Code	City	State Zip Code
		County	Census Tract if in Lancaster or Washington County
Social Security Number		Spouse's Social Security Number	

**1A Employee Verification**

a Will the microbusiness have any employees? ☐ YES ☐ NO

i) If the answer is YES, complete all employee verification questions.

ii) If the answer is NO, continue with question 1B.

b Is the taxpayer registered for E-Verify, the federal electronic verification program used to confirm whether new employees are authorized to work in the United States? ☐ YES ☐ NO

c Do you agree to use E-Verify for employees hired in Nebraska after the date of application? ☐ YES ☐ NO

d If the answer to either question 1A(b) or 1A(c) is NO, do not complete the rest of the application because you are not eligible to apply for this Nebraska tax incentive program.

e Print out the "Company Information" from the E-Verify program and include it as an attachment. Account ID#: \_\_\_\_\_

**1B** Describe your business activity including products sold and markets served.

Micro 2013  
25

## Application Process (continued)

## Part 1

**1B** Describe your business activity including products sold and markets served.

**1C** Explain how you plan to expand your business and how this expansion will address current market needs. Be as specific as you can about when you plan to expand, what purchases you intend to make, and/or how you will increase employee compensation.

**2** The microenterprise tax credit has a \$10,000 lifetime limit for the applicant and any related person. Has a Nebraska Advantage Microenterprise Tax Credit Act application been filed by you, your spouse, parent, sibling, child, or a related party? ☐ YES ☐ NO

If Yes, please identify:

Name	Social Security Number

**2A** What was the amount of microenterprise tax credit authorized or requested by prior applications? **2A** \_\_\_\_\_

**2B** Enter the remaining possible microenterprise tax credit, (\$10,000 minus line 2A) **2B** \_\_\_\_\_

Micro 2013  
26

## Application Process (continued)

## Part 1

**Nebraska Advantage Microenterprise Tax Credit Act Application** **Page 2**

Applicant's Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

**3A** Estimated expenditures and microenterprise tax credits. If a related person (see question 2 response) has applied, the base year figures and the estimated growth of the microbusiness must be shared (see application guide) and reflected in question 3A response. (NOTE: The gray boxes on this table are not filled in.)

	COLUMN A Base Year Tax Year Prior to Application	COLUMN B Year 1 Year of Application	COLUMN C Year 1 Increase (Column B-A)	COLUMN D Year 2 Year After Application	COLUMN E Year 2 Increase (Column D-A)	COLUMN F Total Increase Column C + E	COLUMN G Estimated Credit 20% of Column F
Tax Year Ending Date							
a Depreciable Asset Purchases							
b Repairs and Maintenance							
c Advertising							
d Legal Professional Fees							
e Net Lease Increase							
f New Investment (a + b + c + d + e)							
g Compensation							
h Employer Health Insurance Contribution							
i New Compensation (g + h)							
<b>3B</b> Total Estimated Credit, (Total of lines i and j) <b>3B</b> _____							
<b>3C</b> Enter the lesser of the remaining possible credit on line 2B or the credit estimated on line 3B <b>3C</b> _____							

**4** How are you involved in the day to day activity of the microbusiness? Explain the involvement, the frequency, and the significance to the microbusiness operation.

Micro 2013  
27

## Claiming the Credit

- File **Form 3800N** with Form 1040N and include:
  - A copy of Part 2 of the application signed by the Department;
  - A properly completed Part 3 of the application; and
  - Supporting documentation.

Back to agenda

Micro 2013  
28

Claiming the Credit (continued)

## Part 2

**Nebraska Advantage Microenterprise Tax Credit Act Application** Page 3

Applicant's Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

**PART 2 — FOR DEPARTMENT OF REVENUE USE ONLY**

DEPARTMENT OF REVENUE USE ONLY  
Total Credits Reserved \_\_\_\_\_

Department of Revenue Authorized Signature \_\_\_\_\_ Date \_\_\_\_\_

Micro 2013  
29

Claiming the Credit (continued)

## Part 3

**PART 3**

1 Enter the amount of total microenterprise tax credits reserved in Part 2 \_\_\_\_\_ 1

2 Enter microenterprise tax credit in prior year \_\_\_\_\_ 2

3 Remaining reserved microenterprise tax credit (line 1 minus line 2) \_\_\_\_\_ 3

4 Calculation of microenterprise tax credit (NOTE: The gray boxes on this table are not filled in.)

	Column A	Column B	Column C	Column D
	Base Year (Tax Year Prior to Application)	Current Tax Year	Increase Over Base Year	Credit (20% of Col. C)
Tax Year Ending Date				
a Depreciable Asset Purchases				
b Repairs and Maintenance				
c Advertising				
d Legal/Professional Fees				
e Net Lease Increase				
f New Investment (a + b + c + d + e)				
g Compensation				
h Employer Health Insurance Contribution				
i New Compensation (g + h)				
4 Total Credit (Total of lines f and i) _____ 4				
5 Enter the lesser of line 3 or line 4 _____ 5				

6 Attach a copy of the following documents:

Base year and current year:

- Nebraska Reconciliation of Income Tax Withheld, Form W-3N, including a copy of the attached Federal Wage and Tax Statements, Form W-2;
- Tax depreciation schedule;
- Year-end payroll register with year-to-date information, including total hours paid to hourly and salaried staff;
- Copy of lease agreements for any lease of qualified property; and
- Health insurance billings to show employer contribution.

Current Year:

- Proof of E-Verify employment confirmation, see Part 3 of *Microenterprise Application Guide*; and
- Copies of invoices supporting purchases of depreciable assets, repairs and maintenance, advertising, legal and professional fees.

E-MAIL: If you allow the Department to contact you by e-mail, you accept any risk of confidentiality associated with this method of communication.


**AUTHORIZED SIGNATURE.** This application must be signed by the individual actively involved in the microbusiness, or an individual authorized to sign for the applicant by a power of attorney on file with the Department. Attach a copy of a completed power of attorney.

**sign here**

Signature \_\_\_\_\_ Telephone Number \_\_\_\_\_ Please Print your Name \_\_\_\_\_

Title \_\_\_\_\_ E-mail Address \_\_\_\_\_

Micro 2013  
30

  
 Nebraska Department of  
**REVENUE**

**Nebraska Advantage Act  
Microenterprise Tax Credit**

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**Let us know what you think.**  
**Please turn in your evaluation!**  
**Thank you!**

Micro 2013  
31